2006/2007 : Report 4

OFFICE OF THE

Auditor General of British Columbia

Province of British Columbia Audit Committees:

Doing the Right Things

December 2006

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The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
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V8V 1X4

Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2006/2007 Report 4: Province of British Columbia Audit Committees: *Doing the Right Things*.

Arn van Iersel, CGA
Auditor General (Acting)

Victoria, British Columbia
December 2006

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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Acting Auditor General's Comments

Arn van Iersel, CGA
Auditor General (Acting)

The starting point for accountability for government performance has been, since the creation of this Office, the independent audit of government's financial statements, with the results reported to the Legislative Assembly and reviewed by the Select Standing Committee on Public Accounts (generally referred to as the Public Accounts Committee). As I report to the Committee on my Office's plans for, and the results of, the audit of the government-wide financial statements, the auditors of individual government organizations also report to the respective audit committees of those entities included within government's Summary Financial Statements.

Government's financial statements have grown larger and more complex over time. The Summary Financial Statements of the province now cover more than 150 government organizations, and report government's results in accordance with Canadian Generally Accepted Accounting Principles (GAAP). As the reporting entity has expanded, so the need has increased to ensure that the independent audit of the Summary Financial Statements remains a robust process. The new *Auditor General Act*, passed in 2003, specifically addressed this concern. Section 10(8) states that "the Auditor General may provide the committee with an assessment of the financial statement audit process."

The financial statement audit process is generally sound

This assessment has focused on the current state of audit committee practices within selected organizations to provide an overview of the health of the financial statement audit process. This report summarizes the findings of our assessment under section 10(8). Presented here is an overview of the state of financial audit across government, along with highlights of areas of strength and areas that require improvement.

I am pleased to report that, regarding section 10(8), we did not detect any significant issues with audit committee practices in relation to oversight of the external audit process. The results of our assessment indicates that audit committee practices are generally strong in relation to oversight of the external audit process.

Acting Auditor General's Comments

Audit committee practices are generally good, but there are opportunities for improvement

Large-scale corporate failures in recent years have highlighted the need for strong governance in both the public and private sectors. A focus of reform has been audit committees, which have an increasingly pivotal role in ensuring sound corporate governance, accountability and control. In Canada, the audit committee requirements for listed companies have increased substantially. At the federal level, government has introduced a wide range of reforms around accountability, risk management and internal control, including the establishment of departmental audit committees. Some ministries in British Columbia have made progress in this area as well.

We also assessed audit committee practices as they apply to the audit committee mandate and process, audit committee composition, financial systems and information, oversight of the internal audit process, and whistle-blowing policies. We found many examples of good practice, including written mandates for audit committees, requisite financial expertise in committee membership, and conflict of interest guidance from some Crown corporations. Advances in the standard of public sector governance in British Columbia are due, in large part, to the work of the Crown Agencies Secretariat and the Board Resourcing and Development Office.

At the same time, we also identified several areas for improvement (although none of these was a significant risk in relation to our assessment of the financial statement audit process). For example, we believe that improvements could be made in the:

- frequency of meetings,
- make-up of audit committee members,
- requirement for audit committee members to be fully independent,
- assurances provided by management on financial and reporting systems,
- availability of internal audit services, and
- adoption of formal whistle-blower policies.

Our findings in these additional areas of audit committee practices relate to important audit committee responsibilities. While they would not prevent an auditor concluding that the financial statements are complete and fairly presented, many of them are matters that external auditors may consider as risks, which could affect audit decisions, including the extent of their audit procedures.

Current governance guidance for government organizations in British Columbia is issued by the Board Resourcing and Development Office. This guidance is not currently mandatory or enforced in government policy or legislation.

We recommend that:

1. ***Consistent with their intended evolutionary nature, the Board Resourcing and Development Office governance guidelines for government organizations be revised to fully incorporate current best practice for audit committees; and***
2. ***Compliance with these guidelines be required of all government organizations in the government reporting entity, including the SUCH sector.***

This work will help shape our future audit planning

We take many factors into account when deciding which organizations to audit directly. The results of any assessment under section 10(8)—or any other work we perform—may influence but will not, on its own determine our audit selection process.

The results from this assessment indicate that audit committee practices are generally strong in relation to oversight of the external audit process. They also, however, highlight opportunities for improvement in other related financial oversight responsibilities. We will use these findings to plan our future audit coverage plans under section 10(6) of the Act.

Acting Auditor General's Comments

In conclusion I wish to thank everyone who cooperated with my Office to assist us in gathering the information for this assessment. As well, I would like to acknowledge the hard work, professionalism and dedication of my staff in the production of this report.

Arn van Iersel, CGA
Auditor General (Acting)

Victoria, British Columbia
December 2006

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Background

High profile financial scandals in recent years in both the public and private sectors have highlighted the need for stronger governance arrangements. Regulatory responses include the new *Federal Accountability Act* in Canada and the U.S. *Sarbanes-Oxley Act*, which has had worldwide implications for the duties and responsibilities for audit committees of publicly traded companies (including those in Canada). The aim of all of these new regulations has been to significantly strengthen corporate governance, reporting, accountability and control systems.

Not surprisingly, audit committees have a critical role to play in implementing applicable reforms

The role of an audit committee

Audit committees are set up to help an organization's board monitor strategic processes around corporate governance, accountability and control. In relation to the financial statement audit process, this role often involves the audit committee:

- recommending the appointment and compensation of the external auditor to the board;
- overseeing the independence of the external auditor; and
- working with the auditor to define the purpose of the financial audit, review and approve the audit plan, and review the results of the annual financial statement audit.

An audit committee should also be involved in overseeing internal audits, the internal control framework, risk management practices, financial reporting, corporate performance, and ethics and conduct.

Members of an audit committee should, in addition to having an appropriate mix of skills to allow them to carry out their duties effectively, be independent, non-executive and free from conflicts of interest. Membership on the committee should also be changed periodically.

Background

The framework for managing Crown agencies in British Columbia

Public sector governance and accountability in British Columbia vary across a wide range of organizations called "Crown agencies." These are non-ministry organizations within the government reporting entity for which government generally appoints the majority of board members. Crown agencies include Crown corporations, advisory boards, tribunals and the "SUCH" sector (schools, universities, colleges, and health authorities). At the time of our review, 155 government organizations included in the government reporting entity were subject to annual financial statement auditing and reporting requirements.

The Minister of Finance has developed a policy framework for the governance of British Columbia's Crown agencies. The system clarifies the respective roles of government (as the shareholder for Crown agencies) and boards of directors (as the stewardship/management bodies for Crown agency operations). Strategic oversight of Crown agencies is provided by the Crown Agencies Secretariat (CAS) within the Ministry of Finance. CAS provides advice and information to government and Crown agencies, and is recognized across Canada as a leader in advancing governance practices in the British Columbia public sector.

The governance framework begins with Cabinet, which appoints a Minister with portfolio to be "responsible" to the Legislative Assembly for the performance of his or her Crown agency. The Minister's responsibility is often specified under the enabling statute for the Crown agency and the responsibilities established by the *Budget Transparency and Accountability Act* and the *Balanced Budget and Ministerial Accountability Act*.

Generally speaking, Cabinet or Ministers responsible (and sometimes both) appoint the majority or all of the members of Crown agency boards (except school boards, which are locally elected officials). The governing board is accountable to Cabinet through the designated Minister responsible, who in turn is accountable to the Legislative Assembly for the performance of his or her portfolio of Crown agencies.

Background

Governing boards appointed to a Crown agency have a fiduciary duty to the Crown agency they oversee. General responsibilities of governing boards are described in *The Shareholders' Expectations Manual for British Columbia Crown Agencies*, developed by CAS, and are further specified in the *Best Practice Guidelines: Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations* (Best Practice Guidelines), issued by the Board Resourcing and Development Office (BRDO) in the Ministry of Labour and Citizens' Services.

Public sector governance expectations

Audit committee guidance issued specifically for public sector organizations in British Columbia is contained in the Best Practice Guidelines issued in February 2005 by BRDO. The establishment of BRDO introduced a more professional approach to provincial appointments to public agencies in British Columbia and through the Best Practice Guidelines introduced new standards for governance and disclosure. As well, BRDO released "Appointment Guidelines" in 2001 to assist government organizations in identifying the best qualified individuals for board appointments.

The BRDO Best Practice Guidelines include sections pertaining to audit committees, their membership and responsibilities (see Appendix A for an excerpt.) The guidelines contain many elements of best practice, but are not currently mandatory to follow. They are also intended to be evolutionary in nature, being updated as and when required in response to new developments in governance best practice. It should also be noted that our assessment was performed before April 2006—the date by which the guidelines were to be adopted.

Purpose and scope of our assessment

In April 2003, a new provincial *Auditor General Act* (the Act) made the Auditor General of British Columbia the auditor for the entire government reporting entity—even those government organizations audited by private sector auditors. This ensures that the legislators and the people of British Columbia receive consistent conclusions and recommendations on a whole-of-government basis.

The Act requires the Auditor General to provide the Public Accounts Committee with an annual three-year plan detailing how

government is to be audited. The plan specifies the government organizations to be audited by the Auditor General and those to be audited by private sector auditors. The coverage plan is designed to meet professional standards by providing sufficient coverage and knowledge of the operations of the organizations making up the financial statements being audited. The Act also requires that the three-year plan explain both the process for appointing auditors to government organizations, as well as the involvement of the Auditor General in the audit process where a private sector auditor has been appointed.

In addition, section 10(8) of the Act states that "the Auditor General may provide the committee with an assessment of the financial statement audit process for all government organizations and trust funds."

Our purpose was to:

- provide the Public Accounts Committee under section 10(8) of the Act, with an assessment of the financial statement audit process, by assessing the current state of audit committee practices across a sample of government organizations and trust funds, and of audit committee communications with external auditors on financial statement audits (assessment criteria are provided in Appendix B); and
- help shape future annual audit coverage plans presented to the Public Accounts Committee under section 10(6) of the Act.

This was an assessment of audit committee practices in relation to section 10(8) of the Act. It was not an audit of the effectiveness of individual audit committees. Consistent with this and a desire to encourage continuous improvement in audit committee practices, information was provided to us on the basis that individual results would not be attributed and would be reported on an aggregated basis only.

We selected most government organizations where the Auditor General is the appointed auditor or where the Auditor General relies on the work of other auditors for the audit of the Province's Summary Financial Statements. Ministries are not defined as government organizations and so were not included in this assessment. They are also not covered by the guidelines of the

Board Resourcing and Development Office. The 40 organizations we selected are listed in Appendix C. They included three types of governing bodies:

- Crown corporations, health authorities and other bodies governed by a board of directors;
- universities, colleges and technical institutes governed by a Board of Governors; and
- school boards governed by elected School Trustees.

We assessed the audit committee practices of each of these types of governing bodies using the same criteria. Seven of the 40 entities selected had no audit committees appointed yet or were otherwise unsuitable for assessment against our criteria. These were excluded from our detailed assessment, leaving 33 to be assessed (underlying reasons detailed at page 22).

The organizations selected cover Crown corporations, the SUCH sector, trust funds and one organization not included within the government reporting entity.

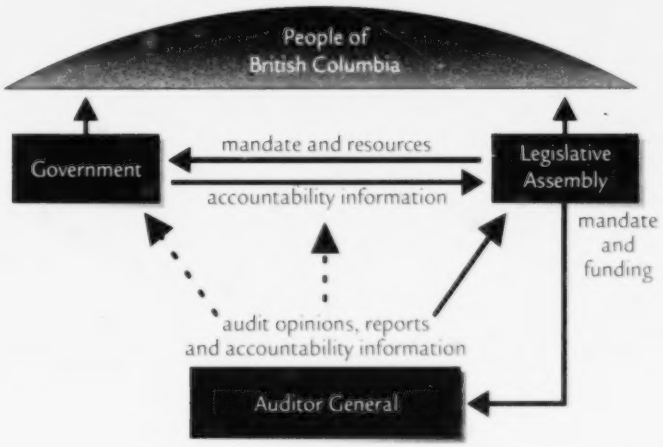
Detailed Report

Who we audit: the government reporting entity

The Auditor General serves the Legislative Assembly and the people of British Columbia by providing independent assessments on government accountability and performance. Exhibit 1 shows the relationship between the government, the Legislative Assembly and the Auditor General.

Exhibit 1

The Office of the Auditor General plays a key role in ensuring provincial public sector accountability.



With respect to the financial performance of government, the Auditor General is the auditor of the government reporting entity which consists of ministries, Crown corporations, and other government organizations such as universities, colleges, school districts, health authorities (the SUCH sector), and similar organizations that are controlled by, or accountable to, government. For 2005/06, the government reporting entity represented almost $33 billion of expenditure; almost $25 billion of tangible capital assets such as roads, hospitals and schools; and more than 30,000 full-time equivalent employees.

Under section 10(6) of the Act, the Auditor General presents an annual audit coverage plan to the Select Standing Committee on Public Accounts (the Public Accounts Committee) for the appointment of auditors for government organizations and trust funds for the next three years. Under section 10(7) of the Act, the plan must include the criteria and selection process for the

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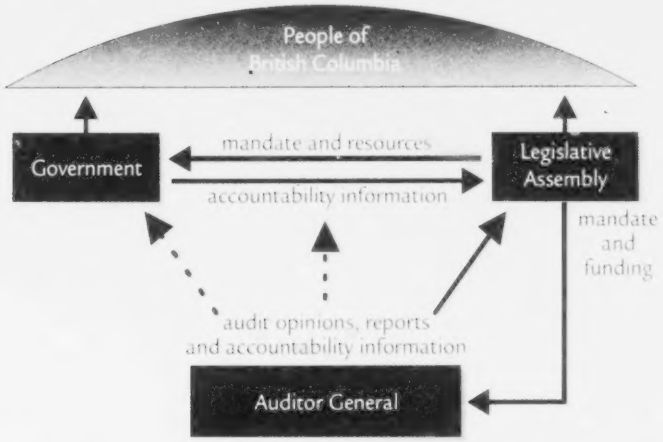

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appointment of auditors, and information on the involvement of the Auditor General in the audit process when the Auditor General is not the appointed auditor.

The Auditor General is responsible under the Act for the direct financial statement audit of the Summary Financial Statements (for all organizations in the government reporting entity), including all government ministries (19).

In addition, as specified in the current annual audit coverage plan, the Auditor General is also the direct auditor of 24 other organizations from all sectors of government (i.e., health, education, social services, natural resources, transportation, protection of persons and property), as well as of all groups of similar organizations (i.e., colleges, school districts, health authorities and hospital societies).

The remaining organizations are audited by private sector audit firms, generally appointed by the governing board of each individual organization. For these audits, the Auditor General has two levels of involvement:

- significant involvement—where Office staff actively engage in understanding the operations of the organization, the audit process and key audit issues; and
- limited involvement—where Office staff gain a basic understanding of the organization and its key audit issues.

The Office's involvement depends on a number of factors, including the size, scope and significance of the organization being audited. When we have a significant involvement in an audit, we review the work of the private sector firm, as appropriate, which provides us with the direct knowledge to be able to rely on their work.

Providing assurance on the audit process

Audit plays a key role in the governance and accountability process in our democratic system. The Auditor General has an audit mandate that covers all of government and can provide assurance to legislators that the overall audit process is working effectively. Under section 10(8) of the Act, the Auditor General may provide the Public Accounts Committee with an assessment of the financial

statement audit process for all government organizations and trust funds.

Audit committees are responsible for overseeing the external audit of financial statements and recommendations from external auditors. We therefore assessed the health of the financial statement audit process by assessing the current state of audit committee practices across a sample of government organizations and trust funds, including communication between audit committees and external auditors.

Audit committees and governance: what we expected to find

Corporate governance

Although there are many definitions, corporate governance can simply be described as the management of management. According to one definition, corporate governance includes "the processes by which organizations are directed, controlled and held to account, and is underpinned by the principles of openness, integrity, and accountability. Governance is concerned with structures and processes for decision making, accountability, control and behavior at the top of organizations."[1]

The Role of the Board

The group at the head of an organization, "the board" or equivalent, is responsible for:

- giving leadership and strategic direction;
- overseeing control mechanisms to safeguard public resources;
- overseeing the overall management of the organization's activities; and
- reporting the performance of the organization.

For boards to be effective in their governance role, they need to be made up of a group of individuals who have the right mix of skills, experience and personal attributes, and who work effectively as a team. Board members should be independent from management, and have no material interest in the organization that would affect their independence.

Government organizations are often large and complex. Boards or their equivalent cannot oversee every detail of such a large business.

[1] *Source: Governance in the Public Sector: A Governing Body Perspective*, The International Federation of Accountants, p.1, August 2001.

As a result, they often set up committees to support it in specific areas. One of the most important of these is the audit committee.

The audit committee's role in relation to corporate governance cannot be taken in isolation. The audit committee exists within the corporate governance framework set by the board, and its effectiveness will, to a large extent, reflect and impact the effectiveness of the board or its equivalent. And therefore the financial governance processes within any organization—of which the financial statement audit process is an integral part—will also reflect the overall governance environment.

Audit committee best practice: doing the right things

Before recent governance reforms, the traditional focus of audit committees was somewhat narrow, with little effort made to understand anything outside the external audit of the financial statements. The attributes of a typical audit committee could be listed as follows:

The Old Audit Committee[2]

- Underutilized
- Not empowered
- Dominated by management
- Reactive
- Focused on compliance with minimum legal requirements
- Uncertain as to role beyond minimum legal requirements
- Little attention paid to relationships
- Dealt with the external auditor principally through management
- Minimum involvement in the selection of members and chairman
- Undemanding
- Superficial
- Lacking in courage

Following international financial scandals in the last few years, much work has gone into defining and regulating what an effective audit committee should look like. The collapse of Enron, amongst other events, has driven changes in regulatory requirements for listed companies worldwide. In Canada, audit committee practices for publicly traded companies are prescribed by the Canadian Securities Administrators (Multi-Lateral Instrument 52-110). Many Canadian companies interlisted on U.S. stock exchanges will also be required to comply with the significant requirements in the *Sarbanes-Oxley Act* in the United States.

[2] Reprinted (or adapted) with permission from *Integrity in the Spotlight: Audit Committees in a High Risk World*, 2nd ed. by Maureen J. Sabia and James L. Goodfellow (Toronto, Canada: The Canadian Institute of Chartered Accountants, 2005). Any changes to the original material are the sole responsibility of the author (and/or publisher) and have not been reviewed or endorsed by the CICA.

The attributes now expected of an audit committee could be listed as follows:

The New Audit Committee[3]

- Increasing expectations
- More onerous responsibilities
- More accountable
- Empowered
- Prepared
- Pro-active
- Not dominated by management
- Focused on appropriate, not minimum requirements
- Focused on relationships
- Educated and current with developments (inside and outside the corporation)
- Insistent on high quality and timely materials and presentations
- Willing to commit the time required
- Insistent on candid and direct communication
- Independent
- Financially literate
- Demanding
- Courageous

While audit committee practices in the public sector continue to evolve, they still generally lag behind those in the private sector. Several Canadian jurisdictions, including the Government of Canada and the provinces of Alberta and Quebec, have recently begun to legislate and reform their governance practices. For example, the *Federal Accountability Act*, passed in June 2006, is designed to further strengthen corporate governance practices in federal departments and was accompanied by increased requirements for audit committees.

In defining current best practice, we made particular use of the Canadian Institute of Chartered Accountants (CICA) publication *Integrity in the Spotlight: Audit Committees in a High Risk World* and, for an additional public sector perspective, of the CCAF publication *Proposed Guidance for Audit Committees in the Public Sector*. The CICA publication discusses audit committee roles and responsibilities within the new regulatory framework in Canada,[4] and defines four dimensions of audit committee oversight (see Appendix D). We did not assess all of these roles.

[3] Reprinted (or adapted) with permission from *Integrity in the Spotlight: Audit Committees in a High Risk World*, 2nd ed. by Maureen J. Sabia and James L. Goodfellow (Toronto, Canada: The Canadian Institute of Chartered Accountants, 2005). Any changes to the original material are the sole responsibility of the author (and/or publisher) and have not been reviewed or endorsed by the CICA.

[4] Multilateral Instrument 52-110 – Audit Committees, Ontario Securities Commission, Ongoing Requirements for Issuers and Insiders, June 30, 2005.

The Role of the Audit Committee

The audit committee is created to help the board monitor corporate governance, accountability and systems of internal control. The committee is accountable only to the board. The role of the audit committee has evolved from a narrow focus on external audit results to one that encompasses:

- internal and external audit;
- financial and non-financial performance management and reporting;
- systems of internal control;
- risk management; and
- compliance with legislation, ethics and codes of conduct.

The nature of the relationship between the external auditor and the audit committee has also changed. Traditionally, while the auditor would report the results of the financial statements audit to the audit committee, the main relationship for the auditor was often with management. Now, through stronger regulatory requirements and more stringent audit standards, it is expected that the auditor will have a strong working relationship with the audit committee and the board (where required). The nature of the relationship is included in our assessment of the financial statement audit process.

Other factors that contribute to an effective audit committee:

- Clear terms of reference, approved by the board.
- An audit committee chair who is independent of management and not also the board chair (since the audit committee gives advice to the board).
- A total membership of three or four board members, independent of management, who do not have significant transactions or relationships with the organization that might affect, or be seen to affect, their independence.
- Members with the necessary skills to function effectively as an audit committee, including a suitable level of financial literacy.
- Suitable orientation and training.
- Attendance by the CEO, CFO, head of internal audit, external audit representative and other key managers as required.
- Meetings held four times a year or more, with a schedule of business for the year.
- Discussions that are open and candid.

Because of how boards are sometimes formed through legislation or their small size, it may not be possible to have a separate audit committee that meets best practice. In such a case, the board can instead meet as the audit committee (i.e., a committee of the whole), but at a different time from its normal sittings. This route should only be taken once other options have been examined, such as using other independent non-board members for an audit committee.

Current guidance in British Columbia

The Board Resourcing and Development Office (BRDO) of Ministry of Labour and Citizens' Services, issued "Best Practice Guidelines: Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations" in February 2005. These guidelines include most of the minimum standards for audit committees required by Canadian security regulators at that time, however, when issued they were not made mandatory nor enforced elsewhere in government policy or legislation. We have reproduced this part of the guidance in Appendix A.

Who we assessed and our approach

Our assessment scope

"Government organizations" covers all organizations within the government reporting entity other than the government itself. Our assessment therefore excludes the audit of government ministries, a process that our Office conducts. Within the remainder of the government reporting entity, we selected most organizations where the Auditor General is the direct auditor and some of those where the Auditor General relies on the work of other auditors. We also included one other organization not included within the government reporting entity where the Auditor General is the auditor.

Using this approach, we ended up with a total of 40 entities in this, our first report on the overall financial statement audit process. These provided us with a good cross-section of government.

Our sample included all 6 health authorities, 20 Crown corporations, 3 school districts, 7 post-secondary institutions and 4 other organizations. (Appendix C provides a complete list of the organizations included.) Overall, we selected 20 organizations where we are the appointed auditor and 20 organizations where the audits were conducted by others.

Our initial work highlighted that, of the 40 entities, 7 had either no audit committee appointed yet or were otherwise unsuitable for assessment against our criteria. Underlying reasons for this were:

- the statutory framework did not require a governing board;
- a full board had not yet been appointed;
- the single board member was the Minister responsible; and
- the board and the audit committee consisted of only one member—the chair.

As a result, these organizations were excluded from our detailed assessment, leaving 33.

How we assessed audit committee practices

We developed our assessment criteria from two sources: the recommendations and guidance in *Integrity in the Spotlight: Opportunities for Audit Committees*; and the prescribed audit committee responsibilities in the BRDO Best Practices Guidelines.

Overall, we chose 40 criteria to conduct our assessment. These we organized into six areas:

- audit committees mandate and process,
- audit committee composition,
- financial systems and information,
- audit committees oversight of the external audit process,
- audit committee oversight of the internal audit function, and
- other: whistle-blower policies.

Our assessment criteria are detailed in Appendix B.

We communicated with board and audit committee chairs, collected and examined documents supporting audit committee practices, and reviewed audit committee minutes. We also provided each organization with a copy of our findings at the conclusion of our assessment and an opportunity to respond to our assessment results. This was not an audit of the effectiveness of individual audit committees. Consistent with this and a desire to encourage continuous improvement in audit committee practices, information was provided to us on the basis that individual results would not be attributed and would be reported on an aggregated basis. Our fieldwork started in November 2005, with our assessment findings cleared with individual organizations by July 2006.

What we found

The information we gathered (using the questions in Appendix B) from each selected organization was analyzed. The following sections provide the detailed results of our assessment, and highlight identified strengths and opportunities for improvement. Appendix E provides a summary of opportunities for improvement by key finding and type of organization.

Oversight of the External Audit Process

Overall Findings and Recommendations

While some minor issues were identified, overall we found audit committees were discharging their duties well in relation to their oversight of the external audit process. Consequently, we have made no specific recommendations.

Implications for our future audit work

Although results from this assessment indicate that audit committee practices are generally strong in relation to oversight of the external audit process, they also highlight opportunities for improvement in other related financial oversight responsibilities. We will factor the findings from our assessment into future audit coverage plans under section 10(6) of the Act

Auditor independence

It is important that external auditors be independent. This can be affected by the appointment process and ongoing monitoring of the auditor's independence. The audit committee should be responsible for recommending the auditor's appointment and for ensuring ongoing independence.

Detailed Finding 1

All 33 of the audit committees we assessed had adequate processes for appointing their external auditor and approving the auditor's compensation. All but two of the audit committees had processes to ensure the independence of the external auditor.

Note: The Auditor General is the appointed auditor for 20 of the organizations assessed. For these organizations, the audit committee does not make the appointment. The appointment is approved by the Public Accounts Committee when the annual audit coverage plan is reviewed and approved under section 10(9) of the Act.

Detailed Report

Relationship with the external auditor

The audit committee should have a strong working relationship with the external auditor. It should review and discuss the audit plan as well as the results of the annual financial audit and any recommendations from the external auditor. The audit committee should also monitor the implementation of audit recommendations and regularly follow-up with management.

The audit committee usually concludes its review of the audited financial statements by conducting an in-camera meeting with the auditor. This provides an opportunity for the committee and the auditor to discuss any issues or concerns in an open way without management present.

Professional Standards for External Auditors

In relation to the conduct of the external audit, the Canadian Institute of Chartered Accountants (CICA) sets out financial statement auditing and reporting standards for all financial statements in Canada. Professional standards for planning, conducting and reporting financial statement audits known as Generally Accepted Auditing Standards cover many of the areas we have assessed in relation to the audit of financial statements. These standards represent the minimum standards for all financial statement auditors in Canada.

Auditors are required, for example, to:

- provide a written engagement letter defining the objectives, scope and limitations of the audit, and clearly state the respective responsibilities of the board, management, and the auditors;
- confirm in writing that they have no independence issues with respect to the financial audit;
- provide an audit plan and discuss this with the audit committee before the start of the audit; and
- report substantive concerns to the audit committee.

In addition, auditors would normally attend when the audited financial statement are presented and comment on the audit process and any issues encountered. This would normally be followed by an in-camera meeting with the audit committee.

Detailed Finding 2

We found four instances where audit committees did not have responsibility to work with the auditor to define the purpose or formulate and approve the audit plan. The remaining 29 audit committee mandates did include these duties.

All of the audit committees were responsible for reviewing the audit results at the conclusion of the financial statement audit and all say they discussed the recommendations with the auditor. All audit committees also had processes to monitor the implementation of audit recommendations and regularly follow up with management.

Detailed Finding 3

All but two audit committees held in-camera meetings with their auditor at the conclusion of the audit.

Other Key Responsibilities Assessed

Overall Findings and Recommendations

Our assessment of audit committee practices in areas other than financial statement audit found mixed results. Although there were many examples of good practice, there were also several opportunities for improvement. We have made two specific recommendations. Among our key findings:

Good practice

- Nearly all audit committees have written mandates. Some mandates were of a very high standard, especially in the Crown corporation and health authority sectors.
- Most audit committees meet at least quarterly and have meeting calendars.
- Most audit committees have at least three members.
- Some Crown corporations provide additional written guidance on conflicts of interest.
- A significant number of audit committees have at least one member with an accounting designation.
- Just over half of audit committees regularly review information on management's risk and control frameworks.

Opportunities for improvement

- Three audit committees meet only twice a year and 10 have no meeting calendars, only meeting "as and when required."
- Three Crown corporation audit committees had only two members.
- Independence issues exist in some post-secondary institutions and service delivery Crown corporations.
- The range of financial information received, reviewed and recommended for approval by audit committees varies considerably.
- Almost half of audit committees rely exclusively on their external audit to provide assurance on management's financial and reporting systems. This is often accompanied by a lack of risk management or internal audit processes.

- A large number of organizations have no internal audit. Where audit committees' mandates cover internal audit, the level of involvement varied considerably.
- Only ten organizations selected have developed formal, external whistle- blower policies and only six of those have posted their policies on their websites.

Recommendations

The overall findings above highlight a degree of inconsistency in audit committee practices in some key areas of responsibility. While some audit committees have practices that strongly reflect current best practice, others have practices that should be strengthened.

The principles of good governance can be applied across a variety of governance structures. Best practice, enshrined in principles rather than in structures, is flexible and can accommodate, for example, sector-specific risks and control frameworks across the provincial public sector. Currently, the Best Practice Guidelines issued by BRDO are not mandated.

We recommend that:

1. ***Consistent with their intended evolutionary nature, the Board Resourcing and Development Office governance guidelines for government organizations be revised to fully incorporate current best practice for audit committees; and***
2. ***Compliance with these guidelines be required of all government organizations in the government reporting entity, including the SUCH sector.***

Implications for our future audit work

Our findings in these additional areas of audit committee practices relate to important audit committee responsibilities. While they may not prevent an auditor concluding that the financial statements are complete and fairly presented, many of them are factors that external auditors consider as risks, which could affect the extent of their audit procedures. As a result, we will take these findings into account when considering the many matters that help shape future audit coverage plans, under section 10(6) of the Act.

The audit committee mandate and process

The audit committee mandate is often described in a written charter. The charter establishes the agreed upon scope of the audit committee responsibilities and also determines the frequency and number of meetings held throughout the year. Membership changes over time. A written and up-to-date charter governing practices strengthen an audit committee's effectiveness by providing stability and direction throughout the year. An example of a strong mandate is that of the Interior Health Authority (see Appendix F).

Detailed Finding 4

Audit committee mandates and practices vary widely. Some committees had mandates that specify best practices; others had mandates that were too brief or vague to clearly define the expectations of the governing boards.

Nearly all governing bodies have established written mandates for their audit committees. We found that many organizations had well-written audit committee mandates that fully reflected our expectations to meet financial oversight practices. Most of the Crown corporations and health authorities included in our review developed audit committee charters consistent with our criteria. Twenty-two of the 33 organizations had written mandates that covered all assessment areas of financial oversight practices; 7 had poorly defined mandates; and 4 did not have any written.

Audit committees should meet at least four times a year and as often as necessary to adequately discharge their responsibilities. Every area of responsibility should be allocated to a specific meeting date and have a prescribed agenda identifying the nature of the items to be addressed. The calendar complements the timing and extent of the work undertaken by the audit committee, provides a formal structure for the committee's business, and ensures completeness in carrying out its mandate. A good example of a calendar is that from WorkSafeBC (see Appendix G).

Detailed Finding 5

Most audit committees in the organizations we assessed met at least quarterly and several met five or six times a year. However, we also found that 3 organizations met only twice a year, and 10 had no meeting calendars. Those organizations described their meeting schedules as "as and when required".

Best practices literature suggests that audit committees should be made up of at least three members to ensure sufficient members are present at all meetings to provide a meaningful dialogue and deliberation of issues.

Detailed Finding 6

Most organizations we assessed had at least three audit committee members and several organizations had four or more members. Three of the Crown corporations we selected had only two audit committee members and one Crown corporation had no committee structure in place. In the latter case, the board of directors sat as a committee of the whole for all deliberations.

Audit committee composition

In Canada, publicly traded companies are subject to strict requirements for audit committee membership. In addition to a minimum membership of three, members must be independent and financially literate. This reflects current thinking on what contributes to having the "right people" in place.

Independence

An independent audit committee member is one who has no direct or indirect material relationship with the organization he or she governs. This means having no previous or current employment with the organization, no immediate family member with a tie to the organization, and no other material relationship with the organization.

However, members who meet all of the criteria for independence may still encounter specific situations where they believe there is a conflict of interest. If the conflict is for a specific item, then the member should declare the conflict and withdraw from discussions or any decision-making on that issue. If the conflict is significant enough to affect the member's ongoing objectivity and independence, then he or she should resign from the audit committee.

Independence is critical to the audit committee discharging its duties to the board in an objective manner. It is therefore appropriate to have an audit committee chair who is not the board chair, and who does not chair any other board committees.

Independence and the absence of conflicts of interest are critical to preserving audit committee integrity. The absence of written policies that clarify conflict of interest guidelines, supported by disclosure requirements, places all audit committee members at risk in the conduct of their duties. Decisions that are impaired by real or perceived conflicts of interest undermine the integrity of the audit committee and of the board.

In the British Columbia public sector, independence is assessed at the beginning of the selection process for all BRDO candidates. The BRDO requires that every candidate complete a Candidate Profile and Declaration form (see Appendix H) as the first step in assessing board appointments. The selection process also covers other areas of due diligence, including professional qualifications and prior board appointments. Candidates are required to complete a self declaration, disclosing any conflicts of interests or other independence issues before being considered for appointment to a particular public sector organization. Once appointed, all directors are further expected to comply with "The Standards of Ethical Conduct for Public Sector Organizations" issues by BRDO in January 2005. This document sets out the minimum standards of ethical conduct for all directors and includes conflict of interest guidelines.

The BRDO Guidelines also state that public sector employees and elected officials are generally not considered for public sector board appointments.

Detailed Finding 7

The BRDO declaration form requires disclosure of some of the types of situations in which a conflict of interest would arise. When we asked organizations to describe the process they used to establish that audit committee members and their immediate family were independent and free of any conflicts of interest, most referred to the BRDO requirements. Some organizations responded that they have additional conflict of interest guidelines and others also have ethics advisors that oversee the independence of board members on an ongoing basis. We noted that conflict of interest provisions were generally more fully described in cases where Crown corporations provided for additional conflict of interest guidelines beyond the initial BRDO appointment declarations. A review of the BRDO Guidelines might be an appropriate opportunity to review the completeness of the BRDO declaration form. This review could draw on any additional guidance being used by government organizations.

We found that six organizations of the 33 we assessed had one or more audit committee members with independence issues:

- *two of the Crown corporations we assessed had employees appointed to their audit committees;*
- *one of the Crown corporations in our sample had an audit committee composed of three senior public servants, one an assistant deputy minister from the ministry responsible for the organization. (The Appointment Guidelines issued by BRDO state that public servants should only be appointed to governing boards of public sector organizations in exceptional circumstances or where the legislation provides otherwise);*
- *one Crown corporation had audit committee members who had economic interests in the affairs of the corporation; and*
- *two post secondary institutions had faculty or administrative personnel appointed to audit committees.*

This last practice originates from the legislation that creates universities or post-secondary institutions. Post-secondary institutions are required by law to appoint faculty members and other employees to their governing boards. They also sometimes appoint them to their audit committees. We also found three instances where the governing bylaws exempted these appointments from being deemed to be conflict of interest situations and specified that these members be granted full voting privileges in conflict of interest situations.

Governance Arrangements in the Post-Secondary Education Sector

Many post-secondary institutions have governance arrangements that have evolved independently from those of other sectors. These arrangements are not unique to British Columbia and can be seen in many jurisdictions world-wide. Some of these arrangements, however, do not meet what is generally held to be governance best practice.

Detailed Report

Financial literacy

"Financial literacy" is the ability to read and understand a set of financial statements that contain the complexity and breadth of accounting issues that could reasonably be expected to be included in an organization's financial statements. The BRDO guidelines prescribe that at least one of the audit committee members should have a financial designation or relevant financial expertise.

Twenty-five of the 33 organizations included in our sample had at least one member on their audit committee with a financial designation. Information returned to us did not allow us to asses whether the remaining audit committees had members with other appropriate financial expertise.

Financial systems and information

All public sector organizations are required to provide regular financial reporting to the shareholder during the fiscal period. Most often this reporting is tied to government's quarterly forecasts and fiscal year end. This reflects the importance of the authorization of spending limits by the Legislative Assembly, the central role of budget monitoring in the control of public finances, and statutory public sector reporting requirements.

In addition to reviewing financial performance other than annual financial statements, audit committees should also review information related to the organization's financial risks and management's internal control framework.

Detailed Finding 8

All of the audit committee mandates we assessed were limited to reviewing and recommending the approval of certain financial information to the board. This practice ensures that the responsibility for the approval of financial reports resides with the entire board. The range of financial information reviewed and recommended for approval by audit committees varied considerably. For example, we found that most Crown corporations and health authorities vest responsibility for all financial information to their audit committees. However, we also found one organization whose audit committee had no responsibility for the review of financial information provided to government and stakeholders. Instead, the responsibility remained with the board.

Detailed Finding 9

Fifteen of the 33 audit committees we looked at did not have formal processes in place to review the quality and accuracy of information they receive. Of the 18 who did, most regularly reviewed information related to management's risk and internal control frameworks.

Most of the remaining audit committees relied exclusively on the external auditor's audit opinion to provide them with information to assess the strength of management's financial information and reporting systems. Fourteen audit committees did not have processes in place to regularly review information related to the organization's financial risks and management's control framework to mitigate financial risks.

Assurance on Financial Reporting and Internal Controls in the Private Sector

Relying solely on the external audit of financial statements for assurance on the adequacy of management's financial systems was a common practice before recent reforms in audit committee practices in the private sector. This practice is not legally permitted in publicly traded companies in Canada. New professional standards governing external auditors also prohibit them from providing assurance on the accuracy of financial reporting and the adequacy of internal controls. This is the responsibility of management.

The absence of a formal risk management system or internal audit function in these organizations further reduced the ability of audit committees to implement additional oversight processes.

Internal audit function

The internal audit function has become an integral part of an organization's system of internal control. Internal auditors contribute to the strength of financial management and reporting systems by reviewing and evaluating the effectiveness of internal controls in organizations. Many internal auditors are also involved in providing assessments of an organization's risk management processes. Their work can also provide an additional level of assurance to external auditors in the conduct of the annual financial statement audit.

Internal auditors can be the prime source of information available to management and audit committees on the adequacy of an organization's control environment. While many larger organizations will have their own, in-house internal audit function, smaller organizations can purchase an appropriate level of internal audit services from external providers.

Detailed Finding 10

We found that audit committee responsibilities varied with respect to the internal audit function. While most of the audit committees we assessed had extensive mandates governing the oversight of the internal audit function, four of the 33 audit committees we looked at had brief or vague mandates in this area.

Detailed Finding 11

Nineteen of the organizations we selected had internal audit functions in place, but 14 organizations did not. For those 19 with internal audit responsibilities in their mandate, the level of oversight of internal audit varied considerably.

Overall, we were surprised to find the large number of organizations without internal audit. We also noted a high correlation between audit committees with no internal audit mandate and those with no process in place to independently review the quality and accuracy of information provided by management.

Other: whistle-blower policies

Since the collapse of Enron and other corporate scandals, the requirement for whistle-blower policies has been regulated and more widely introduced as good practice. These reforms recognize a need to ensure there are clear channels of communications that allow the reporting of alleged wrong-doing directly to the board. The audit committees of publicly traded companies in Canada must now establish procedures for:

- the receipt, retention and treatment of complaints received from outside the organization regarding significant accounting, internal accounting controls or auditing matters; and
- the confidential, anonymous submission by employees of the organization of concerns regarding questionable accounting or auditing matters.

Whistle-blower policies are typically incorporated into the corporate governance policies on code of conduct and ethics.

Detailed Finding 12

We found that only ten of the organizations in our sample had developed formal whistle-blower policies and only six of those had posted their policies on their websites.

Whistle-blower policies have been a recent development in governance best practice. This is an area that could be incorporated into future revisions to the BRDO Guidelines.

Whistle-Blower Policy

Key features of a whistle-blower policy could include:

- making the policy publicly available, such as on the organization's website;
- requiring directors, officers and employees to report violations;
- making the commitment that anyone reporting violations in good faith would not suffer adverse consequences as a result (although unsubstantiated, malicious or false allegations would be viewed as a serious disciplinary offence);
- providing clear guidance on who to report violations to;
- designating a compliance officer responsible for investigating and reporting serious violations; with direct access to the CEO, CFO, audit committee and the board. This officer would also report annually to the audit committee;
- requiring that all reported violations of a financial nature be immediately reported to the audit committee;
- assuring confidentiality to the extent possible, and providing the ability to make anonymous complaints; and
- acknowledging receipt of all complaints within a certain period of time, with prompt investigation and appropriate action taken.

Government Response

Government Response

Thank you for providing government with the opportunity to respond to the Office of the Auditor General's "Province of British Columbia Audit Committees – Doing the Right Things" as prepared under Section 10(8) of the Auditor General Act *that states the "Auditor General may provide the committee with an assessment of the financial statement audit process."*

The government is committed to ensuring that the financial statement audit process is sound and is pleased that the Office of the Auditor General (OAG) has validated that this is the case for the organizations examined in the report. The OAG concluded that practices of audit committees are generally strong in relation to oversight of the external audit process and found no significant issues in this respect.

We are pleased with the outside validation provided by the OAG of areas of strength in audit committee functionality and for the soundness of the guidelines for audit committees provided by government through the Board Resourcing and Development Office. Government also shares the OAG's commitment to address those areas that the OAG has identified as requiring improvement in audit committee practices. We are especially pleased with the overall positive findings as the OAG field work for the review was conducted prior to the adoption date of April 1, 2006 for Crown Agencies to adhere to the Board Resourcing and Development Office governance guidelines. The findings of substantial adherence to 'good practice' by the most material Crown Agencies, the commercial Crown corporations and health authorities, provided particular assurance to government. We are confident that future reviews will find a higher level of 'good practice' amongst Crown Agencies.

Government is also committed to ensuring that its Crown Agency system is governed based on 'good governance' practice and is very pleased that the OAG has provided recognition for the advances that British Columbia has made in this field with the work of the Board Resourcing and Development Office of the Ministry of Labour and Citizens Services and the Crown Agencies Secretariat of the Ministry of Finance.

With respect to the specific recommendations from the OAG, government offers the following comments:

Government Response

1. **Revision of Board Resourcing and Development Office governance guidelines for government organizations.**

   Government has committed to ensuring the governance guidelines are "reviewed and updated from time to time in response to the changing needs, experience and new developments in the 'art' of good governance (page 2, Best Practice Guidelines). Government is further committed to ensuring that this is the case for its other governance guidelines and documents (including the disclosure form that OAG has suggested updating in the report).

2. **Compliance with these governance guidelines be required of all government organizations in the government reporting entity, including the SUCH sector.**

   Government has applied these guidelines to a wide range of government organizations, including the SUCH sector. The guidelines are not extended, at this time, to some of the smaller SUCH sector organizations, such as school boards of trustee and denominational hospitals. Government will consider the Auditor General's recommendation that the guidelines be extended to the entire SUCH sector but recognizes that, with over 100 organizations involved, this is a complex issue with significant resource implications. Government's approach has been to ensure that the most material and significant organizations (health authorities, universities and colleges) are addressed as a first priority.

   Government is mindful of ensuring that maintaining these 'good practice' standards for audit committees and supporting governance activities is cost effective for both Crown Agencies and the citizens who rely on these services being available. To this end, government supports Crown Agencies using the resources of government, such as Internal Audit and Advisory Services, when it is not cost-effective for smaller agencies to establish their own internal audit services. As well, government recognizes that Crown Agencies, in certain circumstances such as start-up or wind-up stages of development, will not find it cost-effective or necessary from a risk management perspective, to have audit committees in place and will use alternative valid methods such as utilizing the board as a whole to perform the role of the audit committee, including the review of the financial statement audit process.

Government Response

Government is committed to ensuring that its Crown Corporation and Agencies audit committees are composed of independent members. Government agrees with the 'good practice' criteria in the report for independence and has included this in the Board Resourcing and Development Office guidelines. Government does not agree with OAG that the appointment of senior public servants from ministries to either a board or committee of a Crown Agency creates irreconcilable independence issues and finds no explanation of this perspective of OAG in the report or best practice literature. Government is committed to a merit based appointment process. It will choose, from time to time in unique circumstances such as wind-up, start-up or transition periods of a Crown Agency, to appoint senior civil servants to Crown Agency boards and committees to provide support and access to the unique skill sets and experience of these individuals.

Government will continue to enhance its guidelines and support for 'good governance' of its Crown Agency system and is committed to working with the OAG to support continuous improvement of audit committee functionality as 'good practice' standards evolve. Cooperative effort by government, Crown Agencies and the OAG will continue to keep British Columbia at the forefront of financial statement audit reporting practice.

Appendices

Audit Committee

Following highly publicized scandals in the United States, the *Sarbanes-Oxley Act* and other regulatory measures were adopted. Other countries, including Canada, kept pace by imposing stringent new requirements on the membership and responsibilities of Audit Committees. With the heightened attention given to this area of governance, the work and responsibilities of Audit Committees warrant an extended discussion.

The Audit Committee's job is to assist the board fulfill its financial accountability and oversight responsibilities. The committee does this by reviewing the financial and performance information provided to the stakeholders, monitoring the systems of internal controls that management and the board of directors have established, and overseeing the internal and external audit processes.

Audit Committee Membership

Audit Committee members should be independent and financially literate. At least one member of the committee should have a financial designation or relevant financial management expertise.

In this context:

- "independent" means having no material direct or indirect association with the organization, which could, in the view of the organization's board of directors, reasonably interfere with the exercise of the member's independent judgment; and
- "financially literate" means that the member has the ability to read and understand a set of financial statements which present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the organization's financial statements.

Source: *Best Practice Guidelines: Governance and Disclosure Guidelines for Governing Boards of BC Public Sector Organizations*, Board Resourcing and Development Office, Office of the Premier, February 2005.

Appendix A: Excerpt from BRDO Best Practice Guidelines

Audit Committee Responsibilities

Typically, the Audit Committee is responsible to:

- review and approve the financial information that will be provided to Government and other stakeholders, and ensure that this information accurately represents the business activities of the organization;
- review and approve the systems of risk management and the internal controls established by management and the board to:
  - ensure the organization's sound financial performance;
  - ensure that the organization's internal controls have integrity and will lead to the production of accurate financial statements and performance reports;
  - ensure that management has appropriate systems in place to identify and manage risk;[1] and
  - prevent financial mismanagement;
- recommend the appointment and compensation of the external auditor;[2]
- oversee the independence of the external auditor, including where appropriate, the development of an auditor independence policy;
- work with the auditor to:
  - define the purpose of the audit;
  - formulate and approve the audit plan; and
  - review audit results;
- evaluate the need for an internal audit function and make appropriate recommendations to the board;
- where an internal function is in place:
  - hire, evaluate and (if needed) replace the head of the internal audit unit;
  - approve the internal audit unit's terms of reference;

[1] While risk management has traditionally been a concern of the Audit Committee, there is an emerging recognition that the risks to the enterprise embrace not only financial issues, but also human resource, governance, and sometimes quality issues, and that the organization should have an integrated risk management system which has accountabilities to several or all committees of the board.

[2] Members of public sector organizations should be aware that under the *Auditor General Act*, the BC Auditor General can recommend to the Public Accounts Committee that his office be the external auditor for any public sector organization that is a corporation or an unincorporated body classified as a Government entity and reported through the consolidated revenue fund.

Appendix A: Excerpt from BRDO Best Practice Guidelines

— approve the internal audit unit's short- and long-term plans and related resources;

— initiate and approve specific requests for audits;

— review audit reports (or summaries) and ensure that recommendations are implemented; and

— evaluate the internal audit unit's performance.

The external auditors should be engaged by the board, not by management, and should report to the Audit Committee. From time to time, the Audit Committee should meet with the external auditors without management present. Any work to be performed by the external auditors in addition to audit duties should be pre-approved by the board on the recommendation of the Audit Committee.

The Audit Committee should determine whether the organization requires an internal audit function. Criteria to be considered in assessing the need for an internal auditor include:

- whether the existing management processes are adequate to identify and monitor significant risks facing the organization, and whether the existing internal control system operates effectively;
- whether those who are responsible for managing risks and operating the control system take a wholly objective and systematic view of their own performance;
- whether the board receives the quality of information from management needed to support the organization's risk management and internal controls effectively.

Organizations that require an internal audit capacity generally are those with high risk or high profile operations, and are medium to large in size, with very complex operations.

In British Columbia, the Office of the Comptroller General, Internal Audit and Advisory Services unit, provides advice to Audit Committees on establishing an internal audit function. On request, the Internal Audit and Advisory Services unit will provide internal audit functions to those organizations that do not have their own internal audit capacity. This office also manages an informal association of internal auditors for Crown agencies, which meets regularly to discuss internal audit issues.

The Audit Committee should have written terms of reference detailing the committee's composition and responsibilities.

Appendix A: Excerpt from BRDO Best Practice Guidelines

Best Practices Guideline 4

a) Audit Committee members are financially literate and at least one member has accounting or related financial management expertise.

b) Members of the Audit Committee are independent from the external auditors.

c) The Audit Committee has written terms of reference that set out its roles and responsibilities.

d) The Audit Committee annually reviews its terms of reference and assesses its effectiveness in meeting the needs of the board of directors.

e) The external auditor reports directly to the Audit Committee, not to management.

f) The Audit Committee has an auditor independence policy or reviews and pre-approves all non-audit services to be provided to the organization or its subsidiaries by the external auditor.

g) The Audit Committee periodically reviews the need for an internal audit function.

h) If the organization has an internal audit function:

   i) the internal audit group reports functionally to the Audit Committee and administratively to the Chief Executive Officer;

   ii) the Audit Committee oversees the work of the internal audit group.

i) The Audit Committee meets from time to time with the external and internal auditors without management present.

j) The Audit Committee reviews any proposed changes to the position of the organization's chief financial officer.

k) The Audit Committee has the authority to engage independent counsel and other advisors, with prior approval from the board chair.

Appendix B: Assessment Criteria

Audit Committee Mandate and Process

Has the Board formed a formal audit committee?

- If not, was the need for an audit committee or equivalent formally discussed by the Board of Directors?

If yes, please provide copies of the minutes documenting the decision.

Does the audit committee have a written mandate that has been approved by the Board?

- If yes, please attach a copy.
- If there is a written mandate, is it reviewed periodically and updated as required by the Board?

Does the audit committee report regularly to the Board?

- If yes, attach the most recent report as well as the minutes from the Board where it was presented and discussed.
- Please indicate how often reports are provided to the Board.

Does the audit committee have an annual calendar of items to be considered in order to fulfill their mandate?

- If yes, please provide a copy for the most recent year.
- Is there a clear agenda of items for all audit committee meetings?

Do the audit committee meetings appear adequate in number and of sufficient length to adequately cover their annual calendar and meeting agendas?

During the year did a quorum of audit committee members attend all meetings?

Appendix B: Assessment Criteria

Audit Committee Composition

Audit Committee members should be financially literate and at least one member of the committee should have a financial designation or relevant financial management expertise.

Describe the process used to establish that members of the audit committee and their immediate family are free from conflicts of interest including an assessment that they are not economically dependent on the organization. Also, note if any audit committee members have any relationship to the organization other than sitting on the Board of Directors.

Please describe the process used to select audit committee members including the criteria established, if any to assess their background and previous experience.

If there is a formal audit committee please provide a list of members.

Financial Systems and Information

Does the audit committee review and approve financial information that will be provided to government and other stakeholders?

Does the audit committee have a process to review the quality and accuracy of financial information provided by management?

- Please provide copies of the minutes noting the review.

Does the audit committee regularly review information related to the organization's financial risks and management's control framework to mitigate these risks?

- If yes, please provide copies of the most recent reports received by the audit committee as well as minutes where these items were reviewed.

Oversight of the External Audit Process

Does the audit committee recommend the appointment and compensation of the external auditor?

Does the audit committee oversee the independence of the external auditor including the development of an auditor independence policy?

Appendix B: Assessment Criteria

Work with the auditor to:

a) define the purpose of the audit;

b) formulate and approve the audit plan; and

c) review audit results.

Has the committee established reporting of the external auditor to audit committee members including meetings conducted without management's presence?

Does the audit committee have direct and open discussions with the external auditor on all areas of its mandate?

- If so please describe the nature of the areas covered.

Does the audit committee review and recommend to the Board any additional services to be provided by the external auditor prior to the commencement of services?

Does the audit committee review the details behind the external auditor's recommendations and the scope and nature of the work performed?

Does the audit committee hold management accountable to act on the recommendations of the external auditor?

- If so please describe the process used by the audit committee to accomplish this.

Appendix B: Assessment Criteria

Internal Audit Function

Is there an internal audit function in place for the organization or has the audit committee discussed the need for such a function?

Is the internal audit mandate set and regularly reviewed by the audit committee?

Is the scope of work completed by the internal audit group approved by the audit committee?

Does the audit committee's mandate for the internal audit function include the following responsibilities:

a) hire and evaluate the head of internal audit;

b) approve the internal audit terms of reference;

c) approve internal audit short and long term plans and resources;

d) initiate and approve specific audit requests;

e) review internal audit reports and ensure recommendations are implemented; and

f) evaluate the internal audit unit performance.

Does the internal audit group meet with the audit committee independent of management?

Is there a direct channel of communications between the chair of the audit committee and the internal audit function?

Other

Has the audit committee established a channel outside of management to receive information from staff or third parties on the conduct of the organization?

Appendix C: Organizations Included in Our Review

CROWN CORPORATIONS

BC Housing Management Commission †
Oil & Gas Commission *
British Columbia Transmission Corporation *
British Columbia Hydro and Power Authority
Columbia Power Corporation * †
Tourism British Columbia *
Vancouver Convention Centre Expansion Project Ltd. *
British Columbia Liquor Distribution Branch * †
Partnerships British Columbia Inc. *
British Columbia Railway Company
British Columbia Transit
BC Transportation Financing Authority * †
British Columbia Lottery Corporation
British Columbia Assessment Authority *
British Columbia Pavilion Corporation *
Forestry Innovation Investment Ltd. *
Insurance Corporation of British Columbia
British Columbia Securities Commission *
British Columbia Buildings Corporation †
Industry Training Authority *

INSTITUTES

British Columbia Institute of Technology

UNIVERSITIES

The University of British Columbia *
Simon Fraser University
University of Victoria

COLLEGES

Langara College *
Camosun College
Vancouver Community College

SCHOOL DISTRICTS

Prince George
Nanaimo / Ladysmith *
Kamloops

HEALTH AUTHORITIES

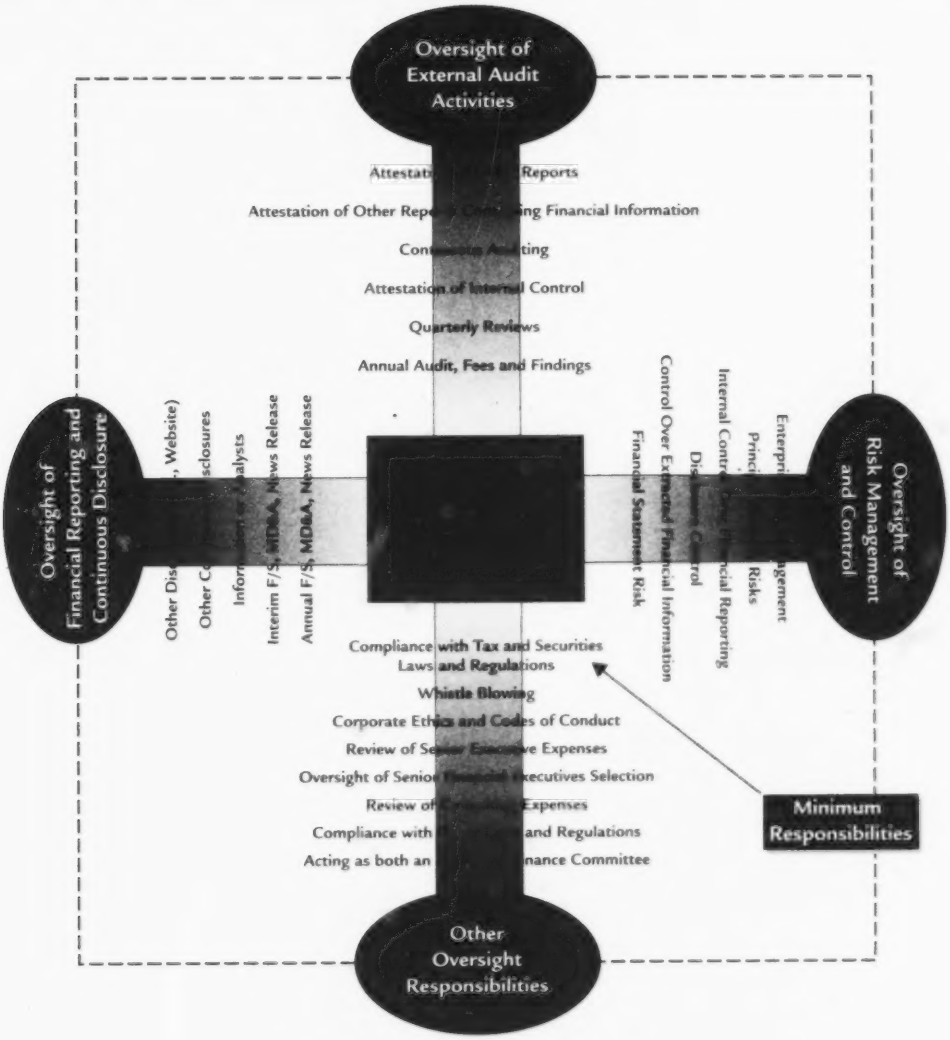
Interior Health Authority
Vancouver Island Health Authority
Fraser Health Authority *
Vancouver Coastal Health Authority
Northern Health Authority
Provincial Health Services Authority

OTHER / TRUST FUNDS

Providence Health Care
WorkSafeBC *
Provincial Employee Community Services Fund * †
Public Guardian and Trustee * †

* Office of the Auditor General of British Columbia is the appointed auditor
† Excluded from detailed assessment

Appendix D: Four Dimensions of Audit Committee Oversight


Oversight of External Audit Activities
Attestation of Other Reports
Attestation of Other Reports Containing Financial Information
Attestation of Internal Control
Quarterly Reviews
Annual Audit, Fees and Findings
Oversight of Financial Reporting and Continuous Disclosure
Interim F/S, MD&A, News Release
Annual F/S, MD&A, News Release
Financial Statement Risk
Control Over External Financial Information
Internal Control over Financial Reporting
Risks
Oversight of Risk Management and Control
Compliance with Tax and Securities Laws and Regulations
Whistle Blowing
Corporate Ethics and Codes of Conduct
Review of Senior Executive Expenses
Oversight of Senior Financial Executives Selection
Compliance with and Regulations
Minimum Responsibilities
Other Oversight Responsibilities

❖ ❖ ❖

Source: Reprinted (or adapted) with permission from *Integrity in the Spotlight: Audit Committees in a High Risk World*, 2nd ed. by Maureen J. Sabia and James L. Goodfellow (Toronto, Canada: The Canadian Institute of Chartered Accountants, 2005). Any changes to the original material are the sole responsibility of the author (and/or publisher) and have not been reviewed or endorsed by the CICA.

Appendix D: Four Dimensions of Audit Committee Oversight

Oversight of External Audit Activities
Oversight of Financial Reporting and Continuous Disclosure
Audit Committee
Oversight of Risk Management and Control
Minimum Responsibilities
Other Oversight Responsibilities

OPPORTUNITY FOR IMPROVEMENT	ALL ENTITIES (33)	COM-MERCIAL CROWN CORPS (5)	SERVICE DELIVERY CROWN CORPS (10)	HEALTH AUTHORI-TIES (6)	SCHOOL DISTRICTS (3)	UNIVERSITIES (3)	INSTITUTES (1)	COLLEGES (3)	OTHER (2)
OVERSIGHT OF EXTERNAL AUDIT PROCESS									
1 Audit committees should oversee the independence of external auditor	2		1		1				
2 Audit committees should work with the external auditor to define the purpose of the audit or approve the audit plan	4				2			2	
3 Audit committees should hold in-camera meetings with the external auditors	2		1					1	
AUDIT COMMITTEE MANDATE AND PROCESS									
4 a) Audit committees should have a written mandate	4		3		1				
b) Audit committees should have a complete well defined mandate	7		1		1		1	3	1
5 a) Audit committees should have a meeting calendar for the year	10		5		3			2	
b) Audit committees should meet more than twice a year	3		1	1		1			
6 a) Audit committees should have more than two members	3	1	2						
b) The board meets as a Committee of the Whole	1		1						
AUDIT COMMITTEE COMPOSITION									
7 Audit committee members should be independent	6		4					2	
FINANCIAL SYSTEMS AND INFORMATION									
8 Audit committees should have the responsibility for reviewing and approving financial information provided to government and stakeholders	1		1						
9 a) Audit committees should have a process to review quality and accuracy of financial information	15		6		2	2	1	3	1
b) Audit committees should regularly review information related to the organization's financial risks and management's control framework to mitigate these risks	14		5		2	2	1	3	1
INTERNAL AUDIT FUNCTION									
10 Audit committees should have a complete well defined mandate to oversee internal audit	4		1			2	1		
11 Organizations should have an internal audit function	14	1	6		3			3	1
WHISTLE BLOWER POLICIES									
12 Organizations should establish a formal whistle blower policy	23	1	7	5	3	2	1	3	1

LEGEND: Number in cell indicated where some assessed organizations have opportunities to improve practices. Number shows frequency in each group.
NOTES: Seven organizations excluded from detailed assessment were: British Columbia Housing Corporation, British Columbia Liquor Distribution Branch, BC Transportation and Financing Authority, British Columbia Buildings Corporation, Columbia Power Corporation, Provincial Employee Community Services Fund, Public Guardian and Trustee.

Appendix E: Summary of Opportunities for Improvement

OPPORTUNITY FOR IMPROVEMENT	ALL ENTITIES (33)	COM-MERCIAL CROWN CORPS (5)	SERVICE DELIVERY CROWN CORPS (10)	HEALTH AUTHORI-TIES (6)	SCHOOL DISTRICTS (3)	UNIVERSITIES (3)	INSTITUTES (1)	COLLEGES (3)	OTHER (2)
OVERSIGHT OF EXTERNAL AUDIT PROCESS									
1 Audit committees should oversee the independence of external auditor	2		1		1				
2 Audit committees should work with the external auditor to define the purpose of the audit or approve the audit plan	4				2			2	
3 Audit committees should hold in-camera meetings with the external auditors	2		1					1	
AUDIT COMMITTEE MANDATE AND PROCESS									
4 a) Audit committees should have a written mandate	4		3		1				
b) Audit committees should have a complete well defined mandate	7		1		1		1	3	1
5 a) Audit committees should have a meeting calendar for the year	10		5		3			2	
b) Audit committees should meet more than twice a year	3		1	1		1			
6 a) Audit committees should have more than two members	3	1	2						
b) The board meets as a Committee of the Whole	1		1						
AUDIT COMMITTEE COMPOSITION									
7 Audit committee members should be independent	6		4					2	
FINANCIAL SYSTEMS AND INFORMATION									
8 Audit committees should have the responsibility for reviewing and approving financial information provided to government and stakeholders	1		1						
9 a) Audit committees should have a process to review quality and accuracy of financial information	15		6		2	2	1	3	1
b) Audit committees should regularly review information related to the organization's financial risks and management's control framework to mitigate these risks	14		5		2	2	1	3	1
INTERNAL AUDIT FUNCTION									
10 Audit committees should have a complete well defined mandate to oversee internal audit	4		1			2	1		
11 Organizations should have an internal audit function	14	1	6		3			3	1
WHISTLE BLOWER POLICIES									
12 Organizations should establish a formal whistle blower policy	23	1	7	5	3	2	1	3	1

LEGEND: Number in cell indicated where some assessed organizations have opportunities to improve practices. Number shows frequency in each group.

NOTES: Seven organizations excluded from detailed assessment were: British Columbia Housing Corporation, British Columbia Liquor Distribution Branch, BC Transportation and Financing Authority, British Columbia Buildings Corporation, Columbia Power Corporation, Provincial Employee Community Services Fund, Public Guardian and Trustee.

Appendix F: Interior Health Authority: Terms of Reference for the Audit and Finance Committee

I. PURPOSE

Responsibility for the financial reporting, information systems, risk management and internal controls of the Interior Health Authority ("the Authority") is vested in management. Management is also responsible for the budgeting and accounting activity, including the preparation of all financial statements and reports for both internal and use.

A. The Audit and Finance Committee (the "Committee") will assist the Board in fulfilling its oversight responsibilities by reviewing:

i) the financial information that will be provided to the Government and other stakeholders;

ii) the systems of internal controls established by management and the Board; and

iii) all audit processes.

B. The Committee will assist the Board in understanding the budget development process and in monitoring the financial performance of the Authority.

C. The Committee will also oversee the management of any investment activity in which the Authority may become involved.

II. COMPOSITION AND OPERATIONS

A. The Committee shall be composed of not fewer than three directors and not more than five directors, none of whom shall be officers or employees of the Authority or any of its subsidiaries.

B. The Committee shall operate in a manner that is consistent with the Committee Guidelines

Source: Interior Health Authority, Board Manual

Appendix F: Interior Health Authority: Terms of Reference for the Audit and Finance Committee

C. All Committee members shall be "financially literate"[1] and at least one member shall have "accounting or related financial expertise". The Authority's auditors shall be advised of the names of the Committee members and will receive notice of and be invited to attend meetings of the Audit Committee, and to be heard at those meetings on matters relating to the Auditor's duties.

D. The Committee shall meet with the external auditor as it deems appropriate to consider any matter that the Committee or auditors determine should be brought to the attention of the Board.

E. The Committee shall meet at least four times each year.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

A. Financial Statements and Other Financial Reporting

The Committee will:

i) review and recommend for approval to the Board, financial information that will be forwarded to the Government or made publicly available, including:

   a) the financial content of any reports required by government or regulatory authorities; and

   b) any management report that accompanies published financial statements (to the extent such a report discusses the financial position or operating results) for consistency of disclosure with the financial statements themselves.

ii) review normal periodic internal financial information provided to the Board, including:

   a) internal monthly and periodic financial statements;

   b) annual audited financial statements;

[1] The Board has defined "financial literacy" as the ability to read and understand a balance sheet, income statement and a cash flow statement in accordance with Canadian GAAP. Where there is a requirement for a director to have accounting or financial expertise, this means the director shall have the ability to analyze and understand a full set of financial statements, including the notes attached thereto in accordance with Canadian GAAP.

Appendix F: Interior Health Authority: Terms of Reference for the Audit and Finance Committee

iii) ensure that:

a) the Board receives timely, meaningful reports that keep it properly informed of the Authority's financial situation and that provide the information needed for decision-making;

b) all reports to the Board clearly display the financial results of each principal area of activity and include cash flow for the period and year to date; and

c) the Board receives, at each meeting, an up-to date forecast of year end results, which reflects events to date and known factors which may influence either revenue or expense components.

iv) review and discuss:

a) the, appropriateness of accounting policies and financial reporting practices used by the Authority;

b) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Authority; and

c) any new or pending developments in accounting and reporting standards that may affect the Authority.

B. Limits of Spending Authority

The Committee will:

i) develop with management a comprehensive statement of spending authorities for operating and capital expenditures and present these authorities to the Board for its approval; and

ii) monitor compliance through the audit process and recommend to the Board any changes which may be necessary from time to time.

C. Internal Control Systems

The Committee will review and obtain reasonable assurance that internal control systems are operating effectively to produce accurate, appropriate and timely information. This includes:

i) review the Authority's financial controls and policies;

Appendix F: Interior Health Authority: Terms of Reference for the Audit and Finance Committee

ii) obtain reasonable assurance that the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management, the internal auditor and the external auditor;

iii) review management steps to implement and maintain appropriate internal control procedures including a review of policies;

iv) monitor compliance with statutory and regulatory obligations;

D. Risk Management

i) Review and endorse the Enterprise-Wide Risk Management Program (Tab 3.11) in respect to the category of risk with which the Audit and Finance individual Committee is concerned;

ii) Monitor, through the regular reports generated by the Chief Executive Officer and Senior Executive Team, the functioning of the relevant section of the program;

iii) Receive from time to time the independent reports of the Internal Auditor;

iv) Keep the Board of Directors informed on general program performance and any major incident reports;

v) Recommend any changes in policy or process which may be needed from time to time to realize the overall objectives of the Authority's risk management program.

E. Information Systems

i) ensure that there is in place an information technology plan which effectively supports the strategic planning process including both current operational management and the longer-term service plans for component sectors;

ii) review the reliability and security of existing information systems and recovery planning.

Appendix F: Interior Health Authority: Terms of Reference for the Audit and Finance Committee

F. Internal Audit

The Committee will oversee the Authority's internal audit function and the internal audit relationship with the auditor and with management. This includes:

i) review the organization and independence of the internal auditor;

ii) review goals, resources and work plans;

iii) review any restrictions or problems;

iv) review recommendations and significant responses;

v) meet periodically and at least annually, with the internal auditor without management present; and

vi) review proposed changes in the Internal Auditor.

G. External Audit

The Committee will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

i) review and recommend to the Board, for approval, engagement of the external auditor;

ii) review the annual external audit plan, including but not limited to the following:

a. engagement letter;

b. objectives and scope of the external audit work;

c. procedures for quarterly review of financial statements;

d. materiality limit;

e. areas of audit risk;

f. staffing;

g. timetable; and

h. proposed fees.

iii) meet with the external auditor to discuss the Authority's quarterly and annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates;

Appendix F: Interior Health Authority: Terms of Reference for the Audit and Finance Committee

iv) review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:

a. any difficulties encountered, or restriction imposed by management, during the annual audit;

b. any significant accounting or financial reporting issue;

c. the auditor's evaluation of the Authority's system of internal controls, procedures and documentation;

d. the post audit or management letter containing any findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weaknesses;

e. any other matters the external auditor brings to the Committee's attention; and

f. assess the performance and consider the annual appointment of external auditors for recommendation to the Board.

v) review and receive assurances on the independence of the external auditor;

vi) review the non-audit services to be provided by the external auditor's firm or its affiliates (including estimated fees), and consider the impact on the independence of the external audit; and

vii) meet periodically, and at least annually, with the external auditor without management present.

H. Investment Management Activity

The Committee will:

i) annually review the investment policy for those handling the Authority's funds and recommend any needed revisions to the Board;

ii) where appropriate, recommend the appointment, renewal or replacement of fund managers; and

iii) regularly review the performance of fund managers against the investment policy.

Appendix F: Interior Health Authority: Terms of Reference for the Audit and Finance Committee

I. Budget Development

i) The Committee will, with the assistance of the Chief Financial Officer, make an in-depth examination of the budget development process including:

a. the methodology used to establish the operating budget — revenue estimates, base assumptions for expense projections, risk factors, inflation allowances, etc.

b. planned capital expenditures by category and the projections for expenditures justified by rate of return

ii) review the planned management summary presentation to the Board to ensure that it will provide the Directors with a clear, concise picture of the financial implications of the operating plan and the associated risks

J. Monitoring On-going Financial Performance

The Committee will ensure, through the Chief Financial Officer:

i) that the Board receives timely, meaningful reports which keep it properly informed of the overall financial situation of the Authority;

ii) that all reports to Board show a clear picture of the financial situation in each principal area of activity and include cash flow for the period and year to date;

iii) that capital budget reports provide information on both a project and total expenditure basis; and

iv) that, in between meetings of the Board, each director receives regular, abbreviated, financial statements together with an Executive Summary that highlights performance against budget and any significant issues.

K. Performance Reporting

i) ensure on behalf of the Board that there is a proper coordination and integration of all reporting requirements under the Performance Agreement with the Ministry and that the Board is kept informed in regard to the meeting of these obligations.

Appendix F: Interior Health Authority: Terms of Reference for the Audit and Finance Committee

L. Other

The Committee shall:

i) review insurance coverage of significant risks and uncertainties;

ii) review material litigation and its impact on financial reporting;

iii) review policies and procedures for the review and approval of the CEO's expenses. (Addendum)

IV. ACCOUNTABILITY

The Committee shall report its discussions to the Board by maintaining minutes of its meetings and providing an oral report at the next Board meeting.

V. COMMITTEE TIMETABLE

The timetable on the following pages outlines the Committee's schedule of activities.

Appendix F: Interior Health Authority: Terms of Reference for the Audit and Finance Committee

ADDENDUM

K (iii) Policies and procedures for the review and approval of the CEO's expenses

The Terms of Reference for the Audit and Finance Committee require that the Committee "review policies and procedures for the review and approval of the CEO's expenses."

Management has put in place comprehensive policy guidelines regarding reimbursable expenses including travel expenses and reimbursement for educational expense. Standard claim forms are also in place. The Committee needs address, therefore, only the process for the formal approval of any claims presented by the CEO.

To that end, the following guidelines will apply:

1. The CEO will personally sign and submit claims for any reimbursable personal expenses, travel expense, or education expense on a monthly basis using the standard claim form(s) provided by the Authority and in accordance with the approved current Expense Policy applicable to all staff.
2. These claims will be combined with any expenses otherwise settled (Corporate credit card etc.) to provide a Monthly Summary of the total personal expenses incurred by the CEO in the discharge of his responsibilities.
3. The Monthly Summary will record total expenses by category (accommodation, meals, airfares, etc.). It will also separate the CEO's personal meal expenses from meal charges for third parties including both Authority staff and outside parties. An explanation for third party charges will be provided.
4. The Monthly Summary, together with the individual claim forms for reimbursable personal expenses, travel expense, or education expense will be reviewed and approved personally by the Chair of the Board. To avoid unnecessary delay in processing payment in circumstances where the Chair may be temporarily unavailable, an individual monthly claim may be approved by the Chair of the Audit and Finance Committee or the Chair of the Governance Committee.
5. The Chair will deal directly with the CEO on any significant issues or concerns identified in the course of his/her review.

Appendix F: Interior Health Authority: Terms of Reference for the Audit and Finance Committee

keeping the Audit and Finance Committee informed where judged appropriate.

6. At the end of the first six months of the fiscal year and at the end of the fiscal year, an abbreviated year-to-date summary of the CEO's total personal expenses will be presented to the Audit and Finance Committee for its review and subsequent release to the public domain.

7. These guidelines will be review from time to time or as required.

Appendix G: WorkSafeBC: Audit Committee Timetable

Agenda Items	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
A. Financial Statements and Other Financial Information												
i) Review and recommend financial information including: a) annual audited financial statements			✓									
b) quarterly financial statements (including reports of significant monthly administrative budget variances)					✓		✓			✓		
c) financial content of quarterly reports					✓		✓			✓		
d) Annual Report			✓									
e) service plan, annual business plan and operating and capital budgets										✓		
ii) Review and discuss: a) appropriateness of accounting policies and financial reporting practices			✓									
b) significant proposed changes in financial reporting and accounting policies			✓									✓
c) new or pending developments in accounting and reporting standards			✓									✓
d) management's key estimates			✓									✓
B. Risk Management, Internal Control and Information Systems												
i) Review process for assessing significant risk or exposures and steps taken to minimize such risks			✓									
ii) Obtain reasonable assurance that information systems are reliable and internal control systems are properly designed and effectively implemented			✓									
iii) Review management steps to implement and maintain appropriate internal control procedures			✓									
iv) Review adequacy of security of information, information systems and recovery plans			✓									
v) Monitor compliance with statutory and regulatory obligations							✓					
vi) Review appointment of CFO	As Required											

Source: Workers' Compensation Board, Board of Directors' Manual.

Appendix G: WorkSafeBC: Audit Committee Timetable

Agenda Items	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
vii) Review adequacy of accounting and finance resources			✓									
viii) Review financial expenditure policy	✓											
ix) Review Enterprise Risk										✓		
C. Internal Audit												
i) Review organization and independence of internal auditor	✓											
ii) Review goals, resources and work plans	✓				✓		✓			✓		
iii) Review restrictions or problems	✓				✓		✓			✓		
iv) Review recommendations and significant responses	✓				✓		✓			✓		
v) Meet with Director, Internal Audit without management present	✓				✓		✓			✓		
vi) Review and approve proposed changes in the position of Director, Internal Audit	**As Required**											
D. External Audit												
i) Review and recommend engagement of external auditor					✓							
ii) Review annual external audit plan												✓
iii) Meet with external auditor to discuss quarterly and annual financial statements and auditor's report			✓									
iv) Review and advise BOD on planning, conduct and reporting of annual audit												✓
v) Assess performance and consider annual appointment of external auditors for recommendation to BOD					✓							
vi) Review auditor's report on material subsidiaries			✓									
vii) Review and receive assurances on independence of external auditor												✓
viii) Review non-audit services to be provided by external auditor or its affiliates and consider impact on independence of external audit												✓
ix) Meet with external auditor without management present			✓									✓

Appendix G: WorkSafeBC: Audit Committee Timetable

Agenda Items	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
E. External Actuary												
Review planning and results of external actuary's activities and ongoing relationship with external actuary including:												
i) Nomination or discharge of external actuary			✓									
ii) Review and recommend engagement of the external actuary			✓									
iii) Review nature of all services and related fees			✓									
iv) Meet with external actuary to discuss quarterly & annual financial statements and actuary's report	✓						✓					
v) Review and receive assurances on independence of external actuary	✓											
F. Investment Fund												
i) Review investment fund policy and make recommendations	✓						✓					
ii) Review nominations of independent Investment Committee members	✓											
iii) Review Investment Committee performance	✓						✓					
iv) Ensure Investment Committee and Finance Minister are satisfied with fund management and policy	✓											
G. Environment												
i) Receive reports on environmental management program			✓									
ii) Review ongoing environmental compliance issues			✓									
H. Other												
i) Review relationships between external and internal auditors and actuary			✓									
ii) Review insurance coverage of significant business risks and uncertainties					✓							
iii) Review material litigation and its impact on financial reporting	✓		✓				✓			✓		✓
iv) Ensure there are procedures for receipt and treatment of complaints regarding accounting or audit matters and anonymous submissions by employees regarding questionable accounting or auditing matters										✓		

Appendix G: WorkSafeBC: Audit Committee Timetable

Agenda Items	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
v) Retain the right to the opportunity to undertake exit interviews with senior financial staff	As Required											
vi) Review policies and procedures to review and approve officers' expenses and perquisites	✓											
vii) Review expenses claimed by Board Chair	✓		✓		✓		✓			✓		✓
viii) Review process for BOD purchases including the engagement of independent counsel												✓
ix) Review single source and confidential Purchase Decisions approved by BOD	As Required											
x) Review and recommend terms of reference for the Committee	✓											
xi) Evaluate Audit Committee performance	✓											
xii) Review and discuss activity reports made by the Vice-President, Finance	✓		✓		✓		✓			✓		✓
xiii) Audit Chair to meet in-camera with key employees in relation to accounting or auditing matters to discuss whistle blowing procedure										✓		
xiv) Ratify health care contracts over $6 million	As Required											
xv) Review other items of an internal control or risk management nature	As Required											
I. Bring Forward Items												
i) Real estate plan – update	✓						✓					
ii) Report of significant write-offs					✓							✓
iii) Audit business intelligence (review employer compliance and reporting and remitting requirements)					✓							
iv) Claims Management Project Updates	As Required											

Appendix H: BRDO Candidate Profile and Declaration Form

The personal information on this Profile and Declaration is collected because you wish your name to be considered for appointment to the governing board of a British Columbia public sector organization. The information obtained on this form will be used to assess your candidacy against the skills and experience sought for the vacant position.

In completing the Profile, please note that the information sought is that which is relevant to the position in which you have expressed an interest. For more information about the candidate selection and appointment process, please refer to the Board Resourcing and Development Office website (www.gov.bc.ca/brdo) and link to the page "The Appointment Process".

(If you require more room than the space provided, please use a separate piece of paper)

Name of Organization: _____ (the "Organization")

CONTACT INFORMATION

Name *(Please Print)*: _____

Telephone: Work: _____ Home: _____ Cell: _____

Email Address: _____

Home Address: _____

BACKGROUND INFORMATION

I. Educational background *(Provide chronology of your educational background)*

Name of Institution	*Years attended (e.g., from xxxx to xxxx)*	*Degree/Diploma Obtained*

Source: Board Resourcing and Development Office, Office of the Premier, March 2004.

Appendix H: BRDO Candidate Profile and Declaration Form

2. Professional and employment background. *(Provide a chronology of all work experience, starting with, the most recent and showing clear time periods for each experience and all employers)*

Name of Organization	*Years served (e.g., from xxxx to xxxx)*	*Position*

3. The following is a list of every company of which I am currently a director or officer.

Name of Company	*Years served (e.g., from xxxx to xxxx)*	*Positions held*

Appendix H: BRDO Candidate Profile and Declaration Form

4. The following is a list of every company of which I was previously a director or officer,

Name of Company	*Years served (e.g., from xxxx to xxxx)*	*Positions held*

5. Past and present community and civic activities.

Name of Organization	*Years served (e.g., from xxxx to xxxx)*	*Positions held*

6. On a scale of 1-10 where 1 = low and 10 = high, indicate the level of your ability to read and understand financial statements.

_____

Appendix H: BRDO Candidate Profile and Declaration Form

7. Memberships in professional organizations.

_____

_____

8. Publications. (List any published works you have authored)

_____

_____

CONFLICT OF INTEREST — DISCLOSURE STATEMENT

A conflict of interest arises where you have an interest which conflicts (or might conflict, or might be perceived to conflict) with the interests of the Organization. A conflict of interest may take a number of forms. It may be financial or non-financial. It may be direct or indirect. It may be professional or family related. A conflict of interest may arise from →directorships or other employment; →interests in business enterprises or professional practices; →share ownership; →beneficial interests in trusts; →existing professional or personal associations with the Organization; →professional associations or relationships with other organizations; →personal associations with other groups or organizations; or →family relationships.

Every director or potential director of the Organization must disclose any duty or interest that might conflict with his or her duty or interest to the Organization.

9. A direct or indirect conflict with my duty as a Director of the Organization may arise because:

   a) I, or my associates,[1] hold the following offices (appointed or elected):

   _____

   _____

[1] "associate" of a person means any person closely connected by blood or otherwise including, but not limited to, a spouse (including common-law spouse), parent, grandparent, brother, sister, child or grandchild.

Appendix H: BRDO Candidate Profile and Declaration Form

b) I, my associates, or any trustee or any nominee on my behalf, own or possess, directly or indirectly, the following interests (i.e., shares, businesses, or properties):

_____

_____

_____

c) I, or my associates, have the following interests in existing or proposed transactions with the Organization.

_____

_____

_____

10. The nature and extent of the conflicting office duty or interest referred to in subparagraphs 9(a) or 9(b) is:

_____

_____

11. A real or perceived conflict of interest with my duty as an appointee to the organization may arise because I receive financial remuneration (either for services performed by me, as an owner or part owner, trustee, or employee or otherwise) from the following sources:

_____

_____

_____

Appendix H: BRDO Candidate Profile and Declaration Form

12. The following is a list of each subsidiary[2] or affiliate[3] of a company listed in paragraph 9(b) or 11 of this Profile and Declaration.

Company listed in paragraph 9(b) or 11	*Name of Subsidiary or Affiliate*	*Type of Business Ordinarily Carried on by Subsidiary or Affiliate*

13. If, at any time following the signing of this Profile and Declaration, there occurs any material change to the information given herein regarding conflict of interest, either by way or addition or deletion, I shall forthwith file with the Organization a supplementary disclosure statement describing such change.

14. Other than disclosed above, do you have any relationships or interests that could compromise, or be perceived to compromise, your ability to exercise judgment with a view to the best interests of the Organization?

Yes: ___ No: ___

Describe:

___

___

[2] For the purposes of this Profile and Declaration, a corporation is a subsidiary of another corporation where:

(a) it is controlled by:
  (i) that other corporation;
  (ii) that other corporation and one or more other corporations, each of which is controlled by that other corporation; or
  (iii) two or more other corporations, each of which is controlled by that other corporation; or

(b) it is a subsidiary or a subsidiary of that other corporation.

[3] For the purposes of this Profile and Declaration, one corporation is affiliated with another corporation where one of them is the subsidiary of the other, or both are subsidiaries of the same corporation, or each of them is controlled by the same person.

Appendix H: BRDO Candidate Profile and Declaration Form

DUTIES/RESPONSIBILITIES TO THE ORGANIZATION

Board Directors owe the Organization they serve undivided loyalty and a commitment to making the best possible decisions. Directors must carefully adhere to these duties and take their jobs seriously to set high standards of accountability.

By signing this Profile and Declaration, you acknowledge and understand that you are bound by the following duties and responsibilities. (Note: These duties are in addition to the Organization's own Code of Conduct or Conflict of Interest Guidelines.)

15. Duty of Care: You have a duty of care to the Organization which means that:

- you must exercise the degree of skill and diligence reasonably expected from an ordinary person of your knowledge and experience;
- in making decisions, you must always act in the best interests of the Organization;
- you must base your decisions upon facts and reliable information; and
- you must not act without first taking care to be properly informed.

16. Duty of Loyalty: This duty embraces fairness, good faith and honesty. It means that, in all decisions, you must act in the Organization's best interests, not your own. Specifically, you must:

- be honest in your dealings within the Organization and with others on behalf of the Organization;
- maintain the confidentiality of information received by you in your capacity as board member both before and after termination (for whatever reason) of your appointment; and
- avoid situations where you could put yourself in a position of conflict between your own private interests and the best interests of the Organization.

17. Duty of Obedience: This duty requires that you know the Organization's mission and the laws and regulations that affect the carrying-out of the mission. This duty means that you must:

- carry out the Organization's purposes; and
- take all necessary and reasonable measures to assure compliance with laws, regulations and policies that apply to the Organization.

Appendix H: BRDO Candidate Profile and Declaration Form

INTEGRITY AND PUBLIC ACCOUNTABILITY

Note: An affirmative answer to any of the questions in sections 18 to 21 does not automatically disqualify a potential applicant from being appointed. Each candidate's background will be considered in relation to the specific requirements of the appointment.

18. In your employment, business or personal affairs, have you, or any company in which you have a direct or indirect controlling interest, in B.C. or elsewhere:

(a) been charged with (where charges are still outstanding) or convicted of an offence under the Criminal Code of Canada? Yes___ No___

(b) been charged with (where charges are still outstanding) or convicted of an offence under any other Federal statutes or regulations, including the *Income Tax Act*, the *Controlled Drugs and Substances Act*, or others? Yes___ No___

(c) been charged with (where charges are still outstanding) or convicted of any offence under any Provincial statutes or regulations? Yes___ No___

(d) been charged with (where charges are still outstanding) or disciplined by any professional association or body? Yes___ No___

(e) had any improper dealings with government (e.g., improper solicitation of contracts, lobbying or representations? Yes___ No___

(f) been involved in any issue or controversy that has gone, or is now likely to go to litigation or public review? Yes___ No___

If you answered "Yes" to any of the above questions, please provide details below.

_____

_____

_____

_____

Appendix H: BRDO Candidate Profile and Declaration Form

19. Have you or any organization or group which you are associated with promoted or encouraged hatred against people or persons on the basis of ethnicity, language, colour, religion, culture, gender or sexual orientation?

Yes___ No___

Describe:

_____

_____

20. Have you had, or do you have any kind of disability (example: substance abuse) that may affect your ability to serve as a board member?

Yes___ No___

Describe disability and identify any accommodation that may be required to assist you in carrying out your duties:

_____

_____

21. Generally, are you aware of any facts or matters which, if publicly disclosed, could cause the government embarrassment or hinder your performance of your duties as a board member?

Yes___ No___

Describe:

_____

_____

22. I understand that the Board Resourcing and Development Office and the Organization have an obligation to verify reference information with respect to all candidates for potential appointments, including myself.

By signing below, I authorize the Board Resourcing and Development Office to verify or obtain any personal information about me directly from me, from organizations or references referred to in this Profile and Declaration, or from the specific organization(s) listed below for the purpose of evaluating my suitability for appointment to the governing board of a British Columbia organization. I also consent to the disclosure of my personal information to

such persons or organizations when such disclosure is necessary to evaluate my suitability for appointment to a British Columbia public sector organization. This authorization is valid for one year following the date of my signature.

Additional Organizations:

a) _____

b) _____

c) _____

23. Birth Date: *[Required only to verify background information]*: _____

REFERENCES

24. Please provide a minimum of three references.

Name: _____ Occupation: _____

Address: _____

Home Telephone: _____ Business Telephone: _____

Name: _____ Occupation: _____

Address: _____

Home Telephone: _____ Business Telephone: _____

Name: _____ Occupation: _____

Address: _____

Home Telephone: _____ Business Telephone: _____

Appendix H: BRDO Candidate Profile and Declaration Form

BIOGRAPHY

25. I agree that if I am appointed to the governing board of a British Columbia organization, the Board Resourcing and Development Office and the Organization may publish a biography of me that states the area of the Province in which I reside and contains some or all of the information provided in paragraphs 1 through 5 of this Profile and Declaration.

(If you wish, you may attach a short (i.e., 100 words) biography of yourself for publication purposes.)

ATTESTATION AND SIGNATURE

I, _____ *(print name)*:

1. attest to the veracity of the information provided in this Profile and Declaration:
2. acknowledge and agree to adhere to the Charter of Expectations for Directors of Governing Boards; and
3. consent to a copy of this Profile being provided to the Organization.

Signature _____ Date _____

CONFIDENTIALITY

The personal information requested on this form is collected under the authority of and used for the purpose of administering a variety of statutes which authorize the appointment of individuals to government's agencies, boards and commissions. Information on the authority for a specific appointment is available on request. All information provided to us will be considered as supplied in confidence. Under certain circumstances some information may be released subject to the provisions of the *Freedom of Information and Protection of Privacy Act*.

If you have any questions about the collection and use of this information, please contact the Manager of Appointments, Board Resourcing and Development Office at 604 775-1683, Room 730 – 999 Canada Place, Vancouver BC V6C 3E1.

This Profile and Declaration will be kept for a minimum of one year.

If you are appointed to the Organization, a copy of this Profile and Declaration will be provided to the Organization.

Appendix H: BRDO Candidate Profile and Declaration Form

Schedule "A" to Governing Board Candidate Profile and Declaration

Charter of Expectations for Directors of Governing Boards

The Charter of Expectations for Directors of Governing Boards, as set out below, outlines for potential candidates the duties and expectations of board members generally.

Strategic Planning

- provide input to management on emerging trends and issues
- review and approve management's strategic plans, including significant capital allocations and expenditures

Performance Monitoring and Reporting

- monitor corporate performance against strategic and business plans
- evaluate corporate performance reporting
- evaluate performance of senior management

Risk Assessment

- identify principal risks of the Organization's operations and ensure that appropriate systems are in place to manage these risks

Public Policy

- appreciate the role of the Organization as an instrument of public policy
- monitor performance of Organization in relation to the strategic objectives of the shareholder

Senior Staff

- appoint, monitor and evaluate the performance of the CEO; replace if necessary
- ensure succession planning

Financial/Legal Integrity

- ensure ethical behaviour of entity and compliance with all laws and regulations
- ensure accuracy of financial information and compliance with all accounting and audit principles

Appendix H: BRDO Candidate Profile and Declaration Form

Personal Integrity

- ensure personal integrity in all dealings with and on behalf of the Organization, including ongoing responsibility to disclose conflict of interest

Governance

- establish appropriate governance structures to ensure efficient and prudent stewardship of the Organization
- assess board's own effectiveness including monitoring the effectiveness of individual board members

Material Transactions

- review and approve material transactions not in the ordinary course of business

Committees

- participate as appropriate on board committees including: Audit and Risk Management, Governance, Human Resources

Appendix I: Office of the Auditor General: 2006/2007 Reports Issued to Date

Office of the Auditor General: 2006 / 2007 Reports Issued to Date

Report 1 - April 2006

Strengthening Public Accountability: A Journey on a Road that Never Ends

Report 2 - September 2006

The 2010 Olympic and Paralympic Winter Games: A Review of Estimates Related to the Province's Commitments

Report 3 - November 2006

Treaty Negotiations in British Columbia: An Assessment of the Effectiveness of British Columbia's Management and Administrative Processes

Report 4 - December 2006

Province of British Columbia Audit Committees: Doing the Right Things

Each of these reports can be accessed through our website http://www.bcauditor.com or requested in print from our office.